IMPERIAL OIL LIMITED
ANNUAL REPORT 1959

PRINCIPAL PLANTS, FACILITIES AND OPERATING CENTRES
Imperial Oil Limited

IMPERIAL OIL LIMITED

HEAD OFFICE: SARNIA, ONTARIO   EXECUTIVE OFFICES: TORONTO, ONTARIO

directors

C. E. CARSON   J. A. COGAN   L. D. FRASER   J. W. HAMILTON
A. C. HARROP   G. L. MACPHERSON   T. F. MOORE
V. TAYLOR   W. O. TWAITS   J. R. WHITE

officers

President, J. R. WHITE   *Executive Vice-President*, W. O. TWAITS
Vice-Presidents, J. A. COGAN   T. F. MOORE
General Secretary, COLIN D. CRICHTON   *Comptroller*, J. H. SPENCE
Treasurer, D. W. McGIBBON

General Counsel, J. F. BARRETT, Q.C.

transfer offices

IMPERIAL OIL LIMITED: Toronto, Ontario
MONTREAL TRUST COMPANY: Halifax, Nova Scotia; Montreal, Quebec; Winnipeg, Manitoba; Regina, Saskatchewan; Calgary, Alberta; Vancouver, British Columbia
BANKERS TRUST COMPANY: New York, N.Y.

RESULTS IN BRIEF

FINANCIAL - Million $	1959	1958
Earnings after all charges and taxes	$ 54.5	$ 50.6
as percentage of gross income	6.3	6.0
as percentage of total assets	6.2	5.9
Earnings paid shareholders as dividends (Per share: 1959, $1.20; 1958, $1.20)	$ 37.7	$ 37.7
Earnings retained and used in the business	$ 16.8	$ 12.9
Gross Income from all sources	$867	$839
Total Assets at the year-end	$884	$862
Taxes charged against income (Not including road and other directly levied taxes of $118 millions. Provincial road taxes on gasoline ranged from 10 to 17 cents per gallon in 1959)	$ 78	$ 64
Provisions for Depreciation of plants and equipment	$ 44	$ 45
Plant and Equipment Capital Additions and exploration expenditures	$ 92	$ 98
Shareholders' Investment	$630	$613
OPERATING - Million barrels		
Sales of Petroleum Products (Bbls. per day: 1959, 293,000; 1958, 276,000)	107	101
Crude Oil Processed at Refineries (Bbls. per day: 1959, 289,000; 1958, 269,000)	105	98
Crude Oil Production — Gross (Bbls. per day: 1959, 94,000; 1958, 86,000)	34	31
— Net to Imperial	30	28

ANNUAL REPORT TO THE SHAREHOLDERS

by J. R. WHITE, *president*

Increased competition and plentiful supplies were the dominant factors in the Canadian business scene in 1959. The problems of marketing under these conditions were a major concern of businessmen from coast to coast.

In the oil industry, the intensified competition showed in an increased number of price wars and in narrower margins of profit. Despite these conditions, Imperial, with improved business techniques and careful cost control, increased its earnings and generally maintained its position in the market.

The year 1959 was one of recovery and by the end of the year business activity was at a high level. Industrial production rose by eight per cent and there was increased demand from all sections of the economy, particularly in consumer goods.

The Canadian demand for crude oil and products followed the upward trend of business activity and increased by eight per cent. Earnings in the oil industry were generally higher.

Imperial's operations met with increased success in every field. Crude oil production, volume of oil transported, refinery runs and product sales all increased and resulted in earnings of $54,525,000. This was 7.7 per cent more than the company's earnings of $50,620,000 in 1958, and was achieved despite a higher rate of federal income tax.

Reference has been made in past reports to the methods used in computing depletion allowance under The Income Tax Act. The company's interpretation was substantially upheld by a decision of the Exchequer Court of Canada in December, 1958. The Department of National Revenue has appealed this decision to the Supreme Court of Canada and this appeal is expected to be heard shortly. If the Exchequer Court decision is upheld, it will mean a tax rebate to Imperial of approximately $4,700,000 for the 1951 taxation year. The effect of such a decision on later years is undetermined.

The company's total product sales amounted to 293,000 barrels a day compared to 276,000 barrels daily in 1958. Although total sales of heating oils were higher, there was increased competition from natural gas in home and industrial heating. Competition from this fuel will continue to increase.

Plentiful supplies of gasoline led to an increased number of price wars in Ontario, Quebec and British Columbia. In a number of areas, price wars brought about lower gasoline prices and this had an adverse effect on sales income.

The industry's total refining capacity increased about four per cent during the year. Substantial additions were made to the company's refining capacity with the official opening of its completely rebuilt refinery at Calgary and the completion of a small expansion program at Sarnia. Imperial now has a total rated refinery capacity of 332,000 barrels a day.

Ninety per cent of the oil products required by Canadians was supplied by Canadian refineries, and 57 per cent of the crude oil used by these refineries came from Canadian fields. Both figures are the highest in history. Imperial refinery runs were also the highest ever. The company's nine refineries processed 289,000 barrels of crude per day, 7.3 per cent more than the year before. The amount of Canadian crude used by Imperial increased by six per cent.

Industry's production of crude oil and natural gas liquids

IMPERIAL SHARED IN AN IMPORTANT GAS DISCOVERY ON THE BRAZEAU RIVER, SOUTHWEST OF EDMONTON. TO SUPPLY THE DRILLING RIG, THE COMPANY MOUNTED THE LARGEST AIRLIFT EVER MADE TO AN OIL SITE.

reached 525,000 barrels a day, an all-time high. Alberta fields with high producing potentials, in which the company has substantial interests, provided most of the increase. Imperial's gross crude oil production increased by nearly 10 per cent to 94,000 barrels a day.

An aggressive exploration program continued as Imperial drilled exploratory wells in seven provinces. In western Canada, a major oil field was discovered at Judy Creek, Alberta, and drilling to date indicates this field will make an important contribution to the company's crude oil reserves. The company also shared in an important gas discovery in Alberta's Brazeau River area. A new field at Colchester, Ontario, has proved to be the most significant discovery in eastern Canada for many years. On the whole, Imperial had a very successful exploration record during the year. Short-term surpluses which exist at the present time should not obscure the importance of these discoveries to your company's long-term progress.

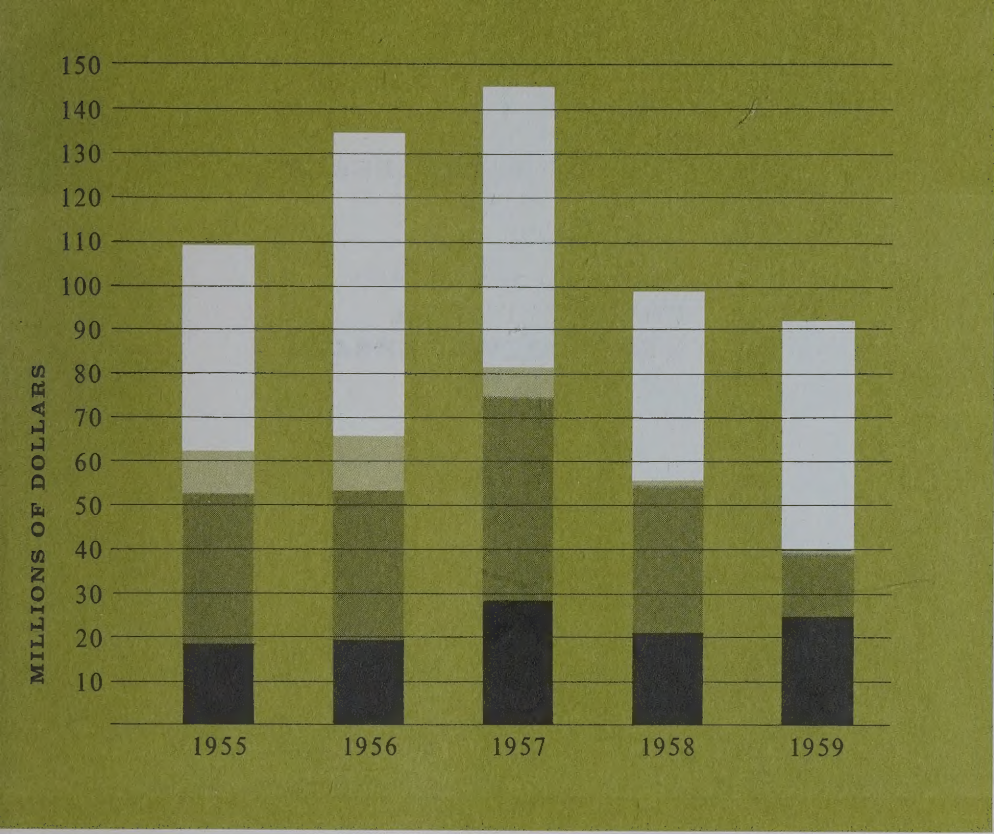
During the year, the company agreed to undertake, with three other companies, the most comprehensive research program to date to discover an economic method of recovering liquid hydrocarbons from the Athabasca oil sands. These sands comprise the world's largest known single oil deposit.

Development of more markets for Canadian crude oil continued to be one of the industry's major problems. An extensive examination of this problem was made by the Royal Commission on Energy which suggested a 40 per cent increase in sales to 700,000 barrels a day by the end of 1960. As we indicated at the time of the report's release, this level of production seems too high to achieve in such a limited period although considerable progress towards this end is expected.

The Commission's main suggestions were saturation of the Ontario market and increased exports to the United States. These, of course, have been the continuing objectives of your company, which has made, and is making, substantial contributions towards their achievement.

Total Canadian exports of crude oil increased 12 per cent during the year to 92,000 barrels daily. Sales to the Puget Sound market increased 44 per cent. Although such large growth has not taken place in the American mid-west and Great Lakes area there is good prospect for improvement.

The amount of Canadian crude oil used in the Ontario market in 1959 grew by 20 per cent to an average of 198,000 barrels a day. The increased sales in Ontario in effect displaced imported crude oil and products made from imported crudes. The refineries in Ontario now represent almost the equivalent of the entire market enjoyed by Canadian crude oil six years ago.



CAPITAL ADDITIONS AND EXPLORATION EXPENDITURES

- EXPLORATION & DEVELOPMENT
- TRANSPORTION, ETC.
- MANUFACTURING
- MARKETING

Industry's sales of natural gas increased 25 per cent during the year but, as with crude oil, actual production did not keep pace with potential as new discoveries were made and reserves increased. Natural gas sales from the company's operations in western Canada increased 42 per cent and Imperial has a vigorous gas exploration program under way.

Certain major American markets are actively seeking Canadian gas supplies. The National Energy Board, which was formed last year following a recommendation of the Royal Commission on Energy, is examining the question of gas exports. The Board's decision will have a major and lasting effect on the future development of the Canadian natural gas industry.

The company's capital program in 1959 for oil exploration and development and for new plants and equipment amounted to $91,900,000, slightly less than the previous year's total of $98,400,000. During the past five years the company has spent $577,400,000 for these purposes.

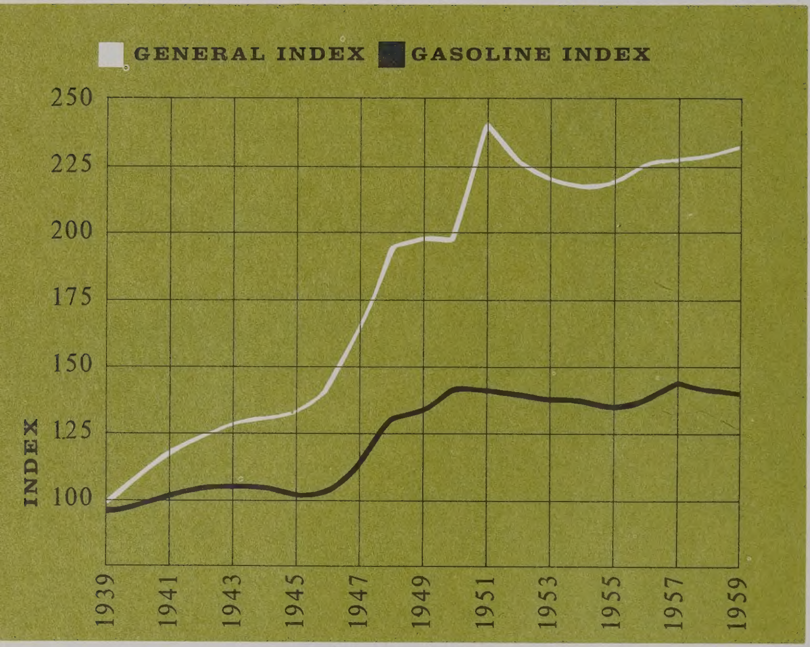
The cumulative effects of these expenditures and the company's continuing program to develop personnel are the major factors in Imperial's ability to improve its earnings under the present extremely competitive conditions.

Constant incorporation of new techniques for better control of costs led to creation of a new staff group, the systems and computer services department. A large, high-speed electronic computer installed in the executive offices now processes data on sales and operations from company offices across Canada. It supplements modern computing and data processing facilities at other locations. It holds promise of reducing accounting and business information costs, as well as providing the company's management with better data to assist in planning and control of operations.

This report, in the design of its covers and other illustrations, emphasizes the company's marketing activities. This is an indication of the special attention the company is devoting to this phase of the business in the present economic climate. Imperial is experiencing a challenging period in which it is improving its competitive abilities. With its modern facilities and experienced personnel it is now better equipped than ever to benefit fully from the expansion of the Canadian economy. In subsequent sections of this report the company's activities are discussed in more detail.

Without the support of its 45,332 shareholders and the effective contribution of its 13,080 employees the company could not have enjoyed its present measure of success. To both groups the directors extend their grateful appreciation.

Toronto, Ontario, March 21, 1960



GASOLINE WHOLESALE PRICE INDEX
Excluding Federal and Provincial Gasoline Taxes
COMPARED WITH GENERAL WHOLESALE PRICE INDEX

BASE: 1935-1939=100 SOURCE: DOMINION BUREAU OF STATISTICS

MARKETING

SALES INCREASE DESPITE INTENSE COMPETITION

The up-turn of business activity last year was reflected in an increased demand for petroleum products. Competition was extremely keen in all classes of trade and in all operating areas. Imperial's product sales volume rose by approximately seven per cent. Its position in the market was generally maintained and in some areas improved.

Retail sales of gasoline kept pace with market growth and retail sales of tires and accessories reached an all-time high. There was a substantial increase in the number, and in the use, of credit cards for retail purchases.

Heating oil sales showed considerable gains over the previous year and there was an increased demand for the company's diesel fuels and lubricants. Paraffin and blended wax sales substantially increased. Sales to the farm market were depressed by bad weather conditions.

Plentiful refinery capacity in most areas of the country continued to exert severe pressures on product prices and had an adverse effect on sales income. The general availability of refined products on the world market exerted further price pressures. Price wars of varying intensity and duration occurred in major centres of Ontario, Quebec and British Columbia.

In areas of price war activity, Imperial moved swiftly to protect its dealers and its market position. Gasoline dealers were placed on consignment to assist them to continue to operate profitably under these competitive conditions. Under this program dealers sell gasoline for a guaranteed commission.

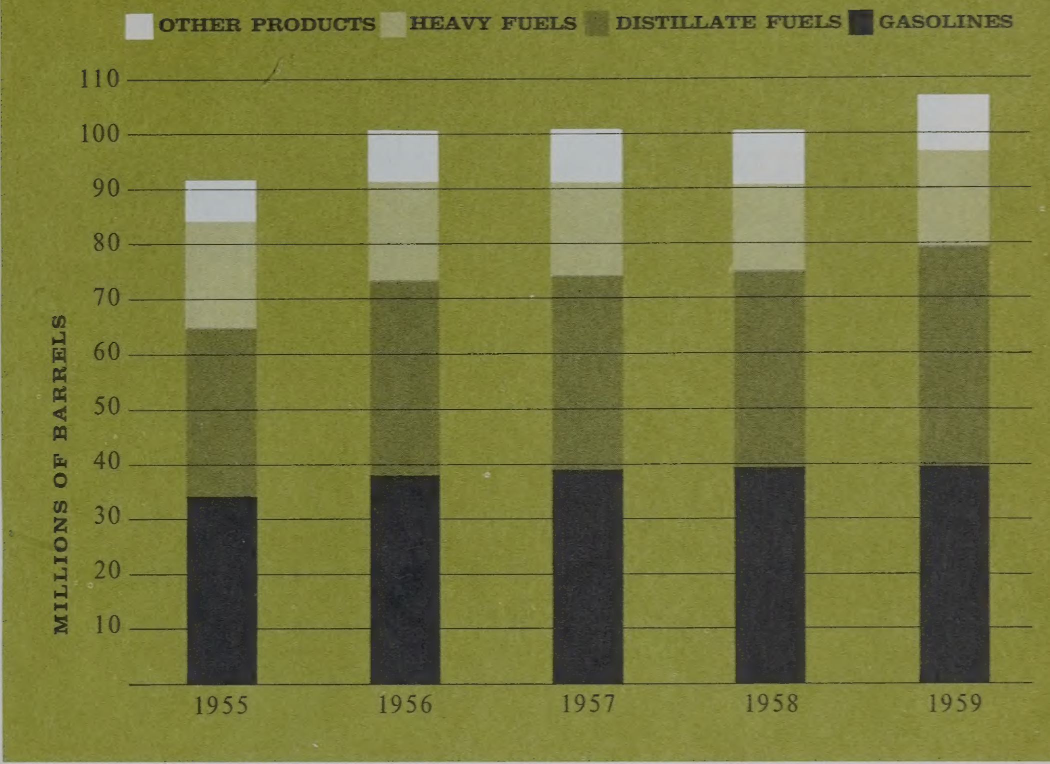
Imperial's research program in the design and location of new service stations continued at a high level. The company co-operated in these matters with municipal officials in many communities across Canada and, on request, provided advice and assistance to town planning groups.

Motor vehicle registrations continued to climb with a consequent expansion of gasoline markets. Investment in new service stations was slightly higher than in the previous year as new outlets were built in many expanding and new growth areas in urban and rural sections. Several experimental stations of advanced design were built and are in operation.

Dealer training programs were expanded and special training stations put into operation. Here, new and established dealers are given basic and practical training in modern service station management to further improve customer service.

New products were introduced and others were improved to

SALES
OF
PETROLEUM
PRODUCTS



meet customer demand. A premium quality crankcase lubricant, Esso Extra Motor Oil, was developed for advanced automobile engines. A carburetor de-icing additive was incorporated in the company's regular grade gasoline. A cylindrical grease cartridge was developed for farm and industrial use and a specially-designed lubricating oil for chain saws was made for the lumber industry. A new Varsol, an improved quality household cleaning fluid, was made available at service stations and other sales outlets. New railway and industrial lubricants and new waxes met increased consumer acceptance.

Capital expenditures to expand and improve all forms of marketing facilities and reduce distribution costs were the second highest in the company's history.

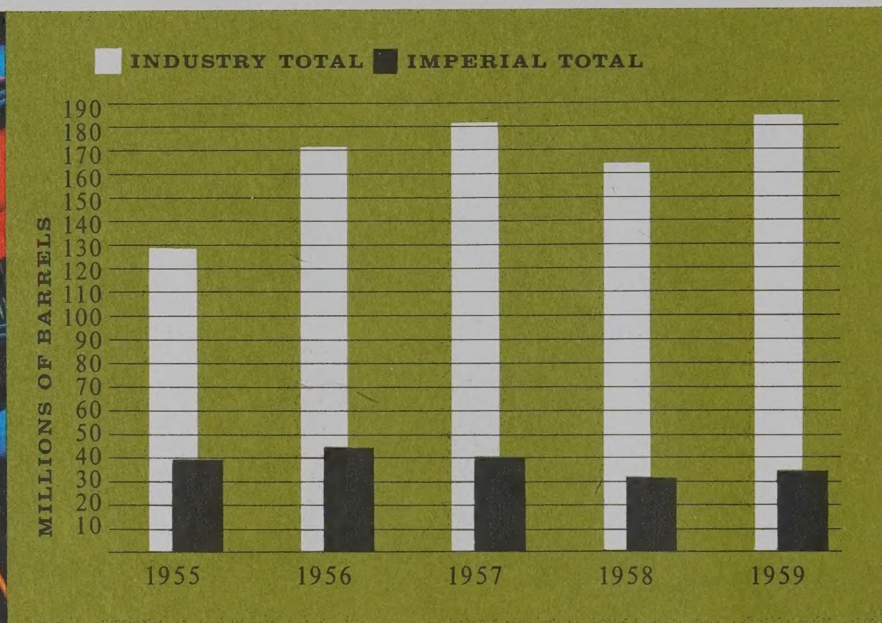
Larger tank trucks, which extend the economic delivery areas around marine and pipe line terminals and refineries, were placed in operation. The largest in use has a 7,200-gallon capacity. The new trucks are providing more efficient service with lower operating costs.

Imperial's leadership in providing essential oil products to the Canadian North and remote areas of resource development was maintained with new plants and facilities at Inuvik and Fort Simpson in the Northwest Territories; Lac Jeannine, Que., where a large-scale iron ore development is under way; Thompson, Man., the site of a major nickel mining development; Fort Nelson, B.C., and Judy Creek and Swan Hills in Alberta. A new marine terminal was constructed at Valleyfield, Newfoundland, to serve logging operations. Imperial marketing engineers designed and supervised construction of a new marine pipe line and mooring facilities to enable large tankers to supply Frobisher on Baffin Island.

Additional plant facilities were added at major airports and 7,000-gallon refueling trucks were introduced to service the largest jet aircraft.

Major facilities are being built to handle substantial increases in the sale of marine products expected to result from increased traffic through the St. Lawrence Seaway. At Baie Comeau, Que., construction began on a new marine terminal to provide modern bunkering facilities for ocean and lake vessels in the grain trade. At Fort William, a major plant renovation and expansion program entered its second phase.

The coming year will mark the 25th anniversary of the Imperial Esso hockey broadcast. This is the oldest nationally-sponsored network program on Canadian radio. The Imperial Esso telecast, which last year marked its seventh year on television, was extended to St. John's, Newfoundland. These programs are now carried by 107 TV and radio stations from coast to coast.



CRUDE OIL PRODUCTION

EXPLORATION AND PRODUCTION

MAJOR OIL, GAS DISCOVERIES BOOST RESERVES

The company's gross crude oil production was 34,294,000 barrels, an average of 94,000 barrels per day. This was nearly 10 per cent more than was produced in 1958. Net production after payment of royalties averaged 82,000 barrels per day.

Canadian production of crude oil reached an all-time high during the year as the downward trend in demand, which started in 1958, was reversed. Production was 11 per cent higher than in 1958.

Most of the increase came from Alberta fields with high producing potentials in which Imperial has large interests. As a result, production from company wells increased to 39 per cent of potential compared to 34 per cent the year before.

With a growing demand for gas on the west coast, sales of natural gas from the company's operations in western Canada increased by 42 per cent, from 19.4 billion cubic feet to 27.5 billion cubic feet. Total sales of natural gas, including production from southwestern Ontario, were 35.6 billion cubic feet. Sales of butane, propane and natural gasoline recovered by the company's gas conservation plants at Devon and Redwater, together with Imperial's share of these products from other plants, amounted to 2,874 barrels a day.

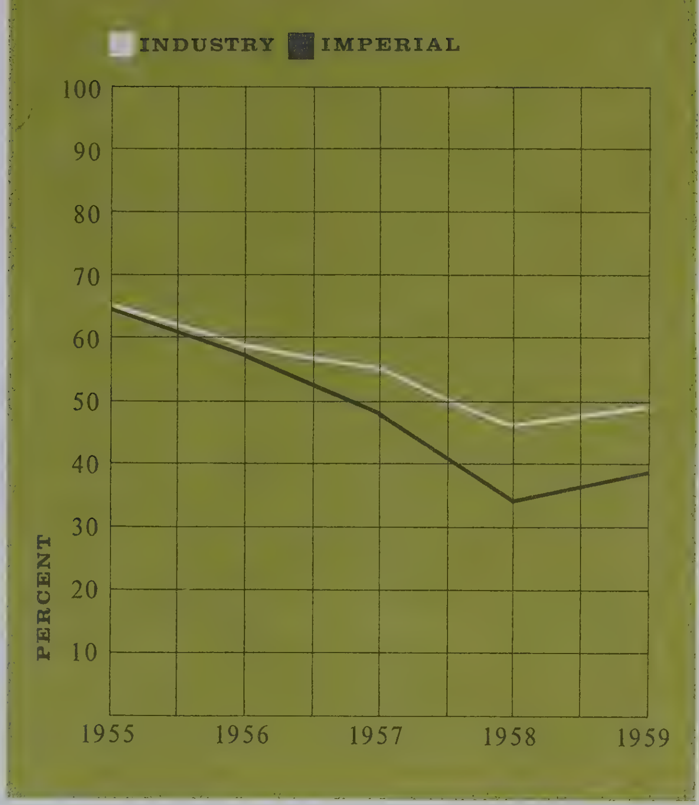
By adopting a wide spacing pattern, the company kept its development drilling at a reasonable level while meeting its drilling obligations. Fifty-eight net development wells were completed in western Canada and nine in southwestern Ontario. Of these, 49 were oil wells, seven were gas wells and 11 were dry and abandoned.

The major part of this program was concentrated in the new discovery area at Judy Creek and the Berrymoor oil pool, a northeast extension of the Pembina field, in Alberta, the Boundary Lake oil field in British Columbia and the Colchester area of southwestern Ontario. At the end of the year, the company had 2,321 net oil wells and 157 net gas wells capable of production.

In Saskatchewan, Imperial and other operators expanded the Steelman waterflood project. A new gas conservation plant, to serve the Alida-Nottingham and Carnduff fields, was built as a joint project with other companies. In Alberta, plans are under way to commence a pressure maintenance project in the Woodbend D-2 field. It will eliminate existing high gas-oil ratio penalties which presently reduce the amount of oil that can be produced from this reservoir.

PRODUCTION AS PERCENTAGE OF POTENTIAL

● *This chart shows the potential production of Imperial and industry compared to actual production over the past five years. The variations between Imperial and industry are due mainly to regulations in Alberta where production is prorated to demand, and to Imperial's large interests in fields of high potential production. Under prorationing, during periods of low demand, production from fields with high producing potential is more severely curtailed than is production from fields where the potential is close to the assigned minimum allowance.*



Modern automatic production control techniques were used in all new producing areas as the company continued its efforts to develop more efficient methods and reduce operating costs.

Imperial continued to explore for new oil and gas reserves in all the prospective areas of Canada. A total of 44 net exploratory wells were completed in British Columbia, Alberta and Saskatchewan. In Ontario, 22.75 net exploratory wells were drilled. One well was drilled in Quebec and a deep test was completed in Nova Scotia. In New Brunswick, the company and its partners completed two shallow and four deep tests. Exploration surveys were carried out in all these provinces and in the Northwest Territories.

A major oil field was discovered on company-held reservation lands at Judy Creek, 130 miles northwest of Edmonton. The oil zone is the Devonian Beaverhill Lake formation at a depth of 8,600 feet. The 15 wells drilled by year-end indicate that this discovery will make a major contribution to the company's crude oil reserves.

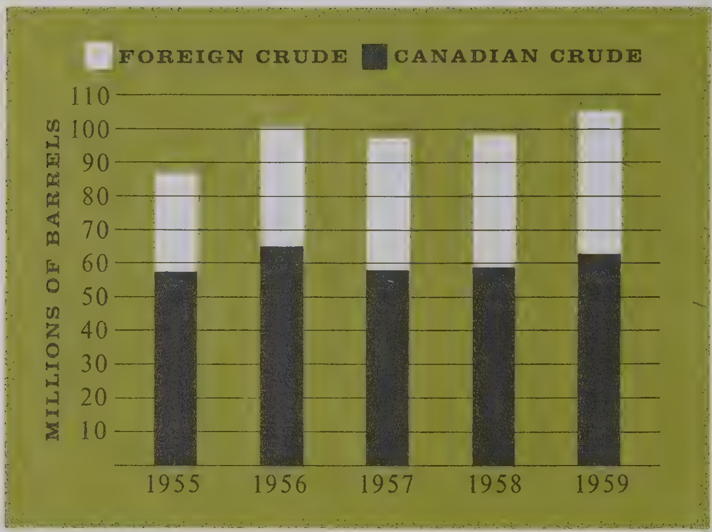
Imperial, in association with others, made an important gas discovery in the Brazeau area of Alberta. The company also participated with other operators in following up 1958 gas discoveries by exploratory step-out drilling at: the Clarke Lake gas field in northeastern British Columbia which appears to be of substantial size and well located to serve increasing west coast gas markets; the Jedney-Bubbles area of northeastern British Columbia; the Wildcat Hills discovery in Alberta where two successful step-out wells were drilled. This drilling substantially increased the company's gas reserves.

In eastern Canada, the first important new oil field to be found for some time was discovered by Imperial and partners at Colchester in Essex County, Ontario. Crude oil is being taken from the Trenton formation, which in the neighbouring states of Michigan, Ohio and Indiana is very productive. Five wells were producing and a sixth was being drilled at year-end.

Imperial's gross land holdings in reservations, permits, options and leases were down 1.3 million acres from the previous year. Total holdings at year-end were 25 million acres, of which 21.3 million were in western Canada and 3.7 million in eastern Canada. These figures do not include partners' interests.

Late in the year, the company joined with three other companies in a research and testing program to develop an economic method of recovering liquid hydrocarbons from the Athabasca oil sands of northern Alberta. In addition to obtaining the results of the research program, which will be the most comprehensive ever undertaken, the company will acquire an interest in acreage held by the group.

THE COMPANY'S REFINERY AT CALGARY WAS REBUILT AT A COST OF $13 MILLION. IMPERIAL'S TOTAL RATED REFINING CAPACITY IS NOW 332,000 BARRELS PER DAY.



REFINERY THROUGHPUT

MANUFACTURING

REFINERY CRUDE RUNS HIGHEST IN HISTORY

Imperial's nine refineries processed more crude oil in 1959 than in any other year in the company's history.

Crude runs totalled 105,435,000 barrels, the equivalent of 289,000 barrels a day, compared to 98,242,000 barrels or 269,000 barrels a day in 1958. This was an increase of 7.3 per cent. The previous peak year was in 1956 when Imperial's refineries processed 275,000 barrels daily.

All crude oil processed in the seven Imperial refineries from the west coast to Ontario was from Canadian wells. This amounted to 172,000 barrels a day, and was 9,000 barrels a day more than in 1958.

Refinery efficiency continued to improve with the introduction of new equipment and better operating procedures. The modernization of Imperial's eight major refineries was completed in the late spring when units of the company's new Calgary refinery were brought on stream. This refinery was rebuilt at a cost of $13,000,000, and its capacity was raised to 14,700 barrels daily from the previous 8,000 barrels a day. With the completion also of a minor expansion program at Sarnia, Imperial's total rated refinery capacity rose to 332,000 barrels a day.

The current program to provide these refineries with facilities to improve the quality of Esso gasolines and meet anticipated octane requirements, was completed with the construction of Powerformers at Calgary and Regina. The total Powerformer program represents an investment of $27,500,000.

Late in the year, a new $2,200,000 alkylation plant for aviation fuel was placed on production at the Winnipeg refinery. With this new equipment and existing plant at Calgary, Imperial now has sufficient alkylate capacity to meet its customers' demand for aviation gasoline throughout western Canada. Formerly, part of this demand was met by imports.

Construction is well advanced on an alkylation plant at the Edmonton refinery. This equipment will convert surplus light hydrocarbons from Imperial's producing operations in the Edmonton area for use in the manufacture of motor gasoline. It is expected to cost $2,300,000.

Two asphalt plants were constructed to meet increasing demand: at Winnipeg a liquid asphalt plant and at Edmonton a solid asphalt unit. A Hydrofiner and a clay treating plant were completed at Montreal to improve middle distillate quality and a jet fuel treating plant was constructed at Winnipeg.

RESEARCH

NEW METHODS LOWER COSTS, RAISE QUALITY

Imperial's research staff continued to devote much of its effort to maintenance of the company's product quality leadership in today's intensely competitive markets.

Extensive pilot plant studies on the behaviour of feed stock components and the factors influencing catalyst activity in the Powerforming process resulted in substantial economic returns through improved gasoline yields and octane numbers.

Research activities and development of new techniques provided the basis for the commercialization of the new grades of detergent alkylate and odorless solvents described in the section on petrochemicals.

Important advances were made in the formulation of lubricating oils for automotive and diesel engines. A new motor oil, Esso Extra, was developed, road tested by a fleet of passenger cars, and is now being sold. It is extremely efficient in the prevention of rust and varnish accumulations on engine parts working under severe conditions such as "stop and go" driving.

New ways were devised to manufacture at lower cost other lubricating oils equal to or better than the former products. This program has resulted in substantial advantages to the customer and savings to the company.

After intensive field studies, improved waxes and wax blends were developed for milk cartons, bread wraps and similar protective coatings.

Construction began on a three-storey addition to the company's research building at Sarnia. The new building will provide 36,000 square feet of laboratory space at an expected cost of $1,300,000. Imperial's entry into the petrochemical field in recent years, plus the need for a continuous search for new uses for oil, have widened the scope for petroleum research. Imperial has always believed that those companies with strong research facilities will be the best equipped to meet the future needs of Canadians and keep pace with the increasingly stringent quality requirements for petroleum fuels and lubricants.

In addition to its product and process research program, the company continued its investigations into new and improved operating techniques used in exploring for, developing and producing oil and gas reserves. This work is centred at its technical services and research laboratories at Calgary. Among the projects under study are improved geophysical methods and a more efficient means of transportation for use in muskeg and northern areas.


Everything
IMPERIAL
Esso

PETROCHEMICAL

NEW PRODUCTS IMPROVE DOMESTIC, EXPORT SALES

Imperial's petrochemical operations continued to make progress in sales and plant efficiency during the year. This division of the company is still relatively new. Its first unit, a detergent alkylate plant was brought on stream just over two years ago. The past year was the first full year of operation for two other plants: a petrochemical plant producing a wide range of organic raw materials required by the chemical industry and a naphtha specialties plant which produces a full range of petroleum solvents.

These units represent an investment of nearly $40,000,000 by Imperial in a market with high growth potential. The company's sales both in domestic and export markets improved substantially with the addition of new products and the use of new transportation methods.

Operations at one plant were held to a lower level than anticipated by a prolonged work stoppage in a major customer's operations. In spite of this, overall sales improved.

Detergent alkylate sales increased 21 per cent over 1958 and another grade was added to meet special quality characteristics of competitive imports. This should enable the company to protect its domestic market and improve its export position. Sales of petroleum solvents were six per cent higher. It is expected that sales of these high-quality solvents will increase at a more rapid rate when consumers have had more time to evaluate them. An addition to the company's line of high-quality solvents was introduced in the form of odorless solvents, manufactured by a novel process.

A significant mid-year development was North America's first bulk shipment of liquid ethylene. It travelled to Montreal from the company's plant at Sarnia in a specially-designed insulated tank trailer which maintained the gas in a liquid state at a temperature of 155 degrees below zero. This type of movement has broadened the domestic market and made possible substantial export shipments.

TRANSPORTATION AND SUPPLY

CRUDE OIL, PRODUCT MOVEMENTS INCREASE

Assured, efficient and economical methods of supplying crude oil to its refineries and products to its customers are essential to Imperial's integrated operations. The company uses all

A LARGE, HIGH-SPEED ELECTRONIC COMPUTER HAS BEEN INSTALLED IN THE EXECUTIVE OFFICES. IT PROCESSES DATA ON SALES AND OPERATIONS FROM COMPANY OFFICES ACROSS THE COUNTRY.

forms of petroleum transportation — tankers, pipe lines, tank cars and tank trucks. Some of these facilities are owned, some are rented or leased, and in others the company has investment interests. A continuous program of investigation into methods and types of transportation is maintained to improve existing facilities, develop new ones and lower operating costs.

Of equal importance to the company are assured supplies of crude oil and products. The company's supply group purchases crude oil and petroleum products to supplement Imperial's crude oil production. It also provides a crude purchasing service in western Canada for companies whose crude oil requirements are not large enough to warrant permanent purchasing offices. The company receives a small brokerage fee for this service.

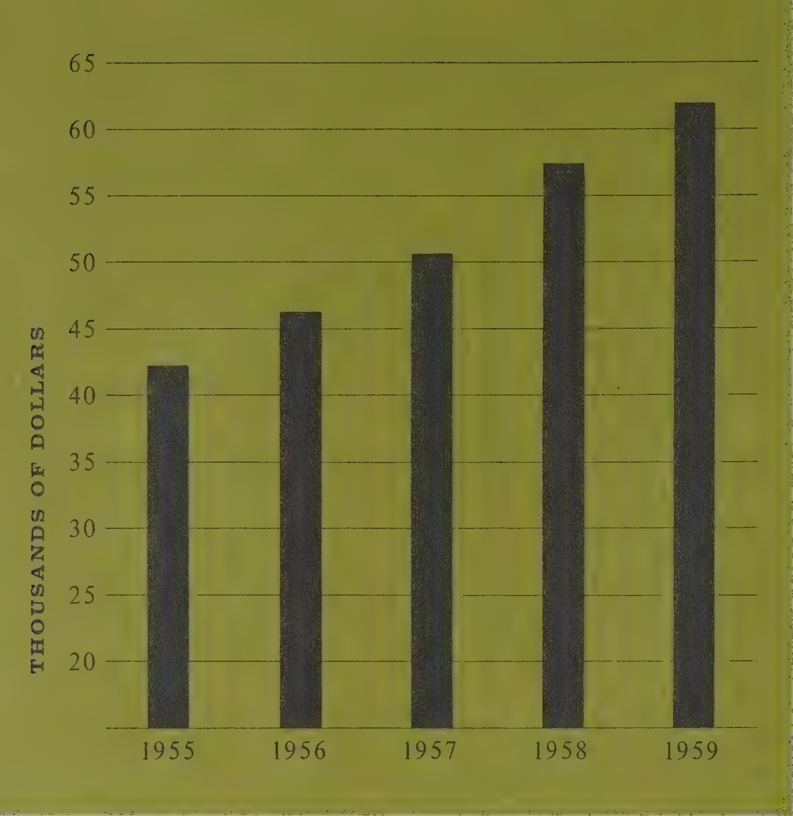
The supply group also purchases crude oil from foreign sources for Imperial refineries at Montreal and Halifax which are beyond the economic supply area of Canadian oil fields. Total crude oil and product purchases last year were four per cent higher than in 1958.

With the exception of rail movements in tank cars, all forms of oil transportation used by the company carried larger volumes in 1959. This was a reflection of the general economic improvement and, in the case of crude oil pipe lines, of a general increase in the use of Canadian crude oil. Canada's two major crude trunk lines, in which Imperial has investment interests, both carried substantially more crude east and west from the western oil fields. Interprovincial/Lakehead Pipe Line moved 12 per cent more crude oil and Trans Mountain Oil Pipe Line volumes rose 21 per cent.

Additional remote control equipment was installed on the company-owned Imperial Pipe Line and Sarnia Products Pipe Line. The Sarnia Products installation permits remote operation from the pipe line dispatch office, of deliveries to a new marketing bulk plant 15 miles away. It is the first such installation in Canada.

With the discovery of a major oil field at Judy Creek, Alberta, Imperial Pipe Line promptly constructed a temporary surface line to permit production to find its way immediately to market. The line was laid from the discovery area to a trunk pipe line 20 miles away. A permanent gathering line was under construction at year-end.

The largest tanker ever built in Canadian shipyards entered Imperial's service in September. The "Federal Monarch," of 41,200 deadweight tonnage, joined the ocean fleet on a 15-year time charter. At year-end, Imperial owned 16 ships with an aggregate tonnage of 78,800 deadweight tons.



INVESTMENT
IN PLANT
AND EQUIPMENT
PER EMPLOYEE

EMPLOYEE RELATIONS

USE OF MANPOWER MADE MORE EFFECTIVE

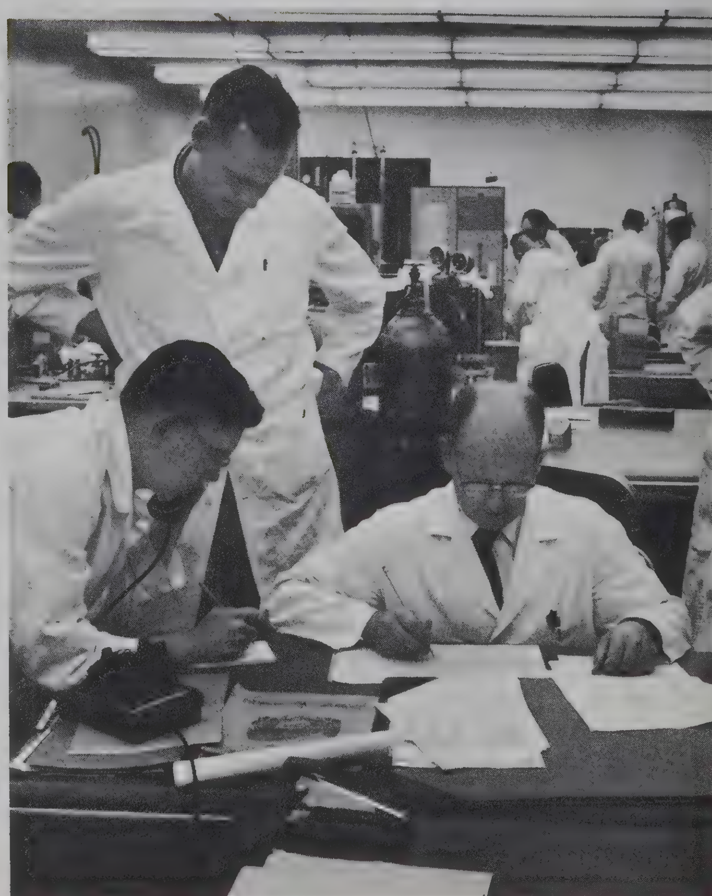
Both employees and management helped meet the challenge of increased competition through continued efforts directed at cost control and greater efficiency.

Accelerated studies of job content and correct placement of employees permitted better use of available talents and training courses helped employees meet new job requirements.

Larger awards were made for cost-reducing employee suggestions submitted under the Coin-Your-Ideas plan. Days lost from industrial accidents were substantially lower.

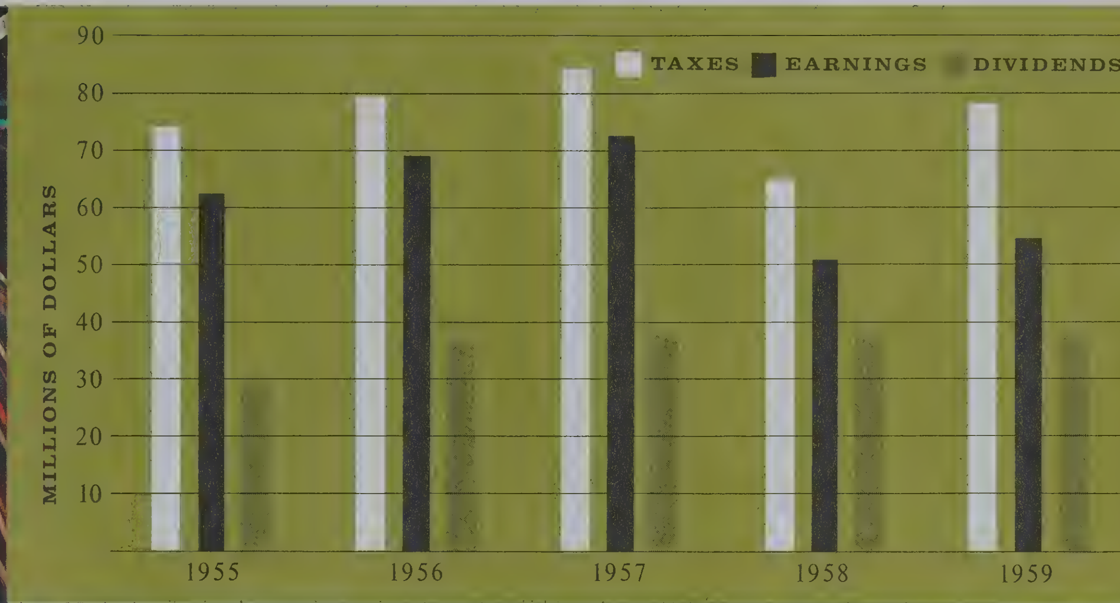
The joint council system of employee representation continued to function satisfactorily and to be well supported by employees. In some areas where joint councils are not established, plant committees were formed as a medium of communication between employees and management.

Some minor changes were made in the company's broad benefits program. A low claims record with the additional group life insurance plan permitted reduction of the premium rate and waiver of premiums for three months. Benefits under the comprehensive medical plan were broadened at no additional cost.



CONTROL OF QUALITY OF PRODUCTS MADE BY THE COMPANY'S PETROCHEMICAL PLANTS IS MAINTAINED IN THIS LABORATORY

EARNINGS, DIVIDENDS AND TAXES



FINANCIAL REVIEW

Financial statements giving the results of 1959 operations appear on pages 20 to 22. All subsidiary companies are wholly-owned and accordingly the statements are on a total or consolidated basis.

INCOME AND EXPENSES

INCOME AND EXPENSES are summarized in the following table:

	1959	1958	Per cent Increase
Income from:			
Operations..........	$857,434,000	$831,551,000	3.1
Investments and other sources......	9,364,000	7,224,000	29.6
	$866,798,000	$838,775,000	3.3
Expenses................	690,595,000	678,937,000	1.7
Depreciation............	43,713,000	44,920,000	(2.7)
Taxes..................	77,965,000	64,298,000	21.3
Earnings after income taxes	$ 54,525,000	$ 50,620,000	7.7

EARNINGS for 1959 at $54,525,000 are equal to $1.73 per share of capital stock outstanding at the year-end; comparable figures for 1958 were $50,620,000, equal to $1.61 per share.

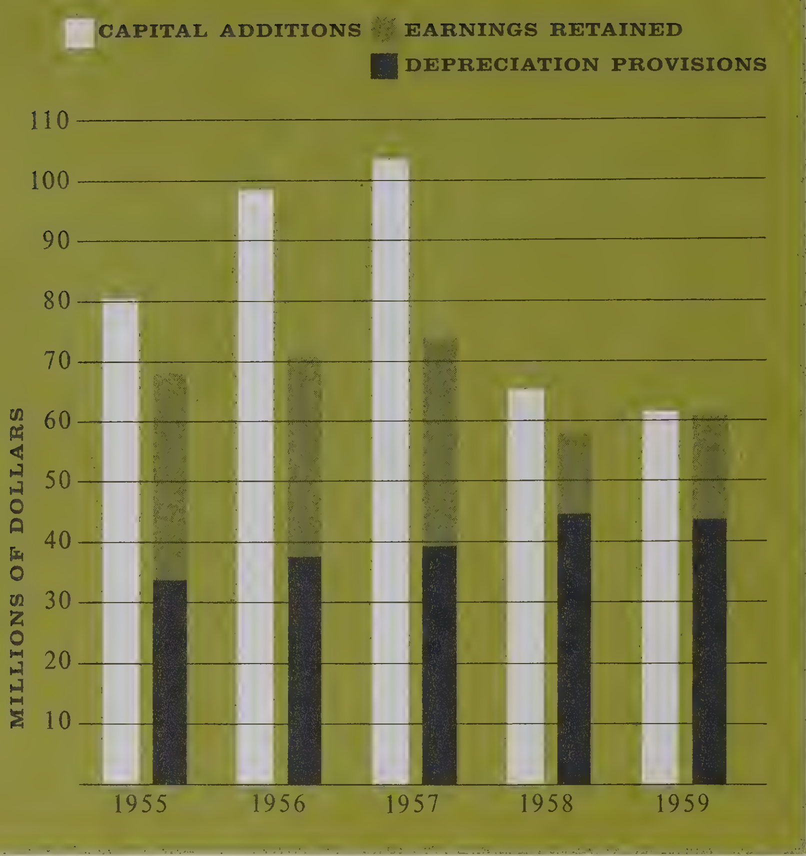
DIVIDENDS were paid to shareholders at the rate of 30 cents quarterly, a total of $1.20 per share for the year; this has been the same total rate since 1956.

INCOME FROM OPERATIONS increased 3.1 per cent over 1958 reflecting higher volumes of product sales, crude oil processed at refineries and crude production.

EXPENSES increased 1.7 per cent, a lower rate of increase than income from operations largely due to lower cost of crude oil and rigorous control of costs.

DEPRECIATION AND AMORTIZATION provided for and charged against income for the year totalled $43,713,000. Additional depreciation will be taken as capital cost allowance in filing the company's income tax return, as explained in the Notes to the Financial Statements on page 24. The applicable tax deferment adds to working capital funds until required to be paid out in future years.

TAXES charged against income totalled $77,965,000, equal to $2.48 per share of the company's capital stock. In addition, the company collected and remitted to provincial and municipal governments a total of $117,553,000 for road and other direct taxes levied by them. Provincial gasoline road taxes ranged from 10 to 17 cents per gallon. The following table summarizes these taxes and indicates the large share of gross revenue which goes to governments in taxation.



CAPITAL ADDITIONS
compared with
DEPRECIATION PROVISIONS AND EARNINGS RETAINED

	1959	1958
Property and capital taxes.......	$ 9,633,000	$ 8,921,000
Sales Tax....................	27,095,000	24,084,000
Taxes on income...............	41,237,000	31,293,000
Total charged against income...	$ 77,965,000	$ 64,298,000
Road taxes, etc. collected and remitted................	117,553,000	112,381,000
Total........................	$195,518,000	$176,679,000

Effective for the full year 1959, the federal income tax rate was increased three percentage points to 50 per cent, and from the second quarter on, the federal sales tax was raised one percentage point to 11 per cent.

ASSETS AND LIABILITIES

TOTAL ASSETS of the company increased $22,440,000 to $884,072,000 at the year-end. This increase represents chiefly the amount of earnings not paid out as dividends but instead retained for use in the business.

NET WORKING FUNDS declined by $6,954,000 to $222,245,000, reducing the ratio slightly.

	1959	1958
Current funds and inventories....	$319,802,000	$318,416,000
Less: Current debts..........	97,557,000	89,217,000
Net working funds..............	$222,245,000	$229,199,000
Ratio, current funds to debts.....	3.3	3.6

INVESTMENT IN MARKETABLE SECURITIES at the end of 1959 amounting to $36,084,000 consisted of short-term commercial notes and government securities. Funds not immediately required for working capital or for expenditures of a long-term nature, such as plant additions, are invested in securities maturing in a relatively short period. These securities are shown at cost to the company which is approximately market value.

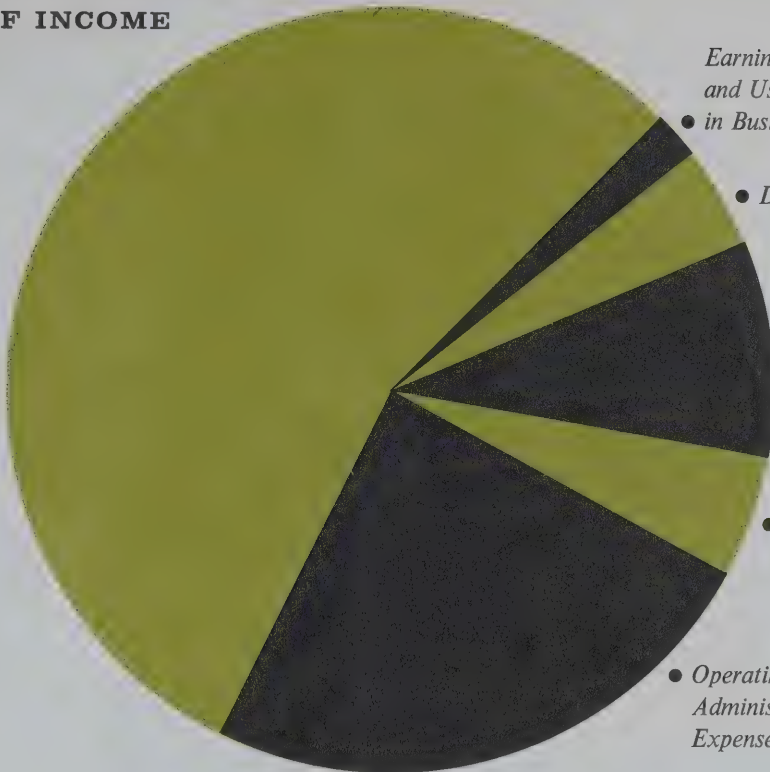
TRADE ACCOUNTS RECEIVABLE increased 1.5 per cent to $109,860,000, continuing to reflect the current rate of use of credit in business affairs and emphasizing the large amount of capital required to finance company sales.

INVENTORIES of crude oil, products and other merchandise stood at cost of $139,215,000, down only slightly from 1958. The company determines inventory values on the basis of the first in-first out (Fifo) method of moving production into sales.

INVESTMENT IN OTHER COMPANIES with quoted market value, are shown at $16,012,000, the cost to the company when the investments were made. The quoted market value at year-end 1959 was $104,951,000; the comparable market value at the previous year-end was $91,754,000. These investments represent important but minority interests in pipe line companies.

CAPITAL ADDITIONS for properties, plants and equipment are shown in the following table:

DISPOSITION OF EACH 1959 DOLLAR OF INCOME



	1959	1958
Crude oil producing (excluding exploration)	$22,265,000	$ 9,536,000
Manufacturing	14,441,000	33,457,000
Marketing	24,905,000	21,504,000
Transportation	203,000	142,000
Other	380,000	975,000
	$62,194,000	$65,614,000

At year-end 1959 the net investment in plant and equipment had reached a total of $523,406,000.

LONG TERM DEBTS at $83,000,000 are $5,000,000 lower than at year-end 1958. The reductions reflect the redemption to be made of 3⅝% Serial Debentures maturing in 1960, to the extent of $1,000,000, and the pre-purchase of $4,000,000 of 3% Sinking Fund Debentures to be applied to satisfy the sinking fund requirements in 1960 and 1961. At year-end 1959 long term debts were 13.2 per cent of shareholders' investment.

SHAREHOLDERS' INVESTMENT now totals $629,922,000, an increase of $17,142,000 which is the retained portion of current year's earnings after payment of dividends, plus the amount of $368,000 received for stock issued to employees in 1959 under the Incentive Stock Option Plan. The total investment now equals $20.02 per share of stock outstanding.

SOURCE AND USE OF FUNDS

SOURCE OF FUNDS:	1959	1958
Sales of crude oil, products and services	$857,434,000	$831,551,000
Income from investments and other sources	9,364,000	7,224,000
Capital stock issued	368,000	293,000
	$867,166,000	$839,068,000
USE OF FUNDS:		
Purchased crude oil, goods, services and other	$692,251,000	$675,267,000
Expenditures for new plant and equipment	62,194,000	65,614,000
Paid on account of income taxes	36,320,000	24,237,000
Paid for all other taxes	36,729,000	33,004,000
Interest and discount on and repayment of long-term debt	8,874,000	5,896,000
Dividends to shareholders	37,752,000	37,736,000
	$874,120,000	$841,754,000
Reduction to current working funds	6,954,000	2,686,000
	$867,166,000	$839,068,000

CONSOLIDATE

ASSETS

	AS AT DECEMBER 31 1959	1958
Current Funds and Inventories:		
Cash	$ 10,606,585	$ 12,512,936
Short-term commercial notes	26,080,025	24,385,310
Government securities, at the lower of cost or market	10,004,750	5,775,413
Trade accounts receivable, less provision for doubtful accounts	109,860,908	108,219,260
Other accounts receivable, less provision for doubtful accounts	4,293,105	4,138,973
Prepaid taxes, insurance and rentals	2,462,310	3,069,418
Inventories, on basis of cost which was less than market		
Crude oil and refined products	130,563,213	133,308,249
Other merchandise	8,652,417	7,235,289
Materials and supplies	17,278,872	19,771,419
	319,802,185	318,416,267
Deferred Funds:		
Mortgages and other deferred accounts receivable, less provision for doubtful accounts	18,831,791	16,735,239
Investment in Other Companies:		
Bonds and shares — with quoted market value 1959 — $104,951,710 1958 — $91,754,790	16,012,150	16,012,150
— without quoted market value, less reserve	2,875,401	2,869,682
Funds Deposited with Governments and Others:		
Government securities, at the lower of cost or market	1,285,045	1,525,312
Cash	596,310	218,800
Investment in Plant and Equipment:		
Land, leases, wells, buildings, plant, transportation and other equipment, at cost	854,337,878	798,409,320
Less — accumulated depreciation and amortization	330,931,363	293,853,525
	523,406,515	504,555,795
Deferred Charges:		
Unamortized debt discount and expense	771,329	845,517
Other deferred charges and credits (net)	492,088	453,216
	$884,072,814	$861,631,978

Approved on behalf of the Board:

J. R. White

W. O. Twaits

) SUBSIDIARY COMPANIES

·ALANCE SHEET

LIABILITIES	As at December 31 1959	1958
Current Debts:		
Accounts payable	$ 66,331,259	$ 66,447,320
Long-term debts due within one year	1,000,000	2,500,000
Income and other taxes payable	25,227,849	13,983,234
Other accrued liabilities	4,997,957	6,286,686
	97,557,065	89,217,240
Long-Term Debts (exclusive of amounts due within one year):		
Imperial Oil Limited —		
3% Sinking Fund Debentures, 1949 Issue, maturing December 15, 1969	36,000,000	40,000,000
Sinking Fund Requirements:		
$2,000,000 — in each of the years 1962 to 1964 inclusive		
$2,500,000 — in each of the years 1965 to 1968 inclusive		
3⅝% Serial Debentures, 1955 Issue, maturing $1,000,000 February 1, 1961, and $1,500,000 February 1 in each of the years 1962 to 1965 inclusive	7,000,000	8,000,000
3⅝% Sinking Fund Debentures, 1955 Issue, maturing February 1, 1975	40,000,000	40,000,000
Sinking Fund Requirements:		
$2,000,000 — in each of the years 1966 to 1970 inclusive		
$2,500,000 — in each of the years 1971 to 1974 inclusive		
	83,000,000	88,000,000
Other Deferred Debts:		
For employees' annuities	11,794,752	14,830,644
Potential Debt or Loss Provisions:		
Deferred income taxes	48,859,487	43,875,218
Fire, marine and other insurance	9,962,436	9,962,436
Contingencies	2,977,342	2,966,498
	254,151,082	248,852,036

SHAREHOLDERS' INVESTMENT	1959	1958
Capital Stock:		
Authorized — 40,000,000 shares of no par value		
Issued 1959 — 31,461,800 shares 1958 — 31,451,252 shares	230,700,947	230,332,873
Capital Surplus Retained and Used in the Business	67,222,821	67,222,821
Earnings Retained and Used in the Business: as per page 22	331,997,964	315,224,248
	629,921,732	612,779,942
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	$884,072,814	$861,631,978

The Notes to the Financial Statements on page 24 are an integral part of this statement.

IMPERIAL OIL LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

	FOR THE YEARS ENDED DECEMBER 31	
	1959	1958
Income:		
From operations	$857,433,797	$831,550,558
From investment and other sources	9,364,030	7,224,122
	866,797,827	838,774,680
Expenses:		
Cost of crude oil, petroleum products and other merchandise purchased, including freight	478,942,146	480,852,927
Exploration, operating and administrative expenses	208,688,969	194,962,541
Taxes, other than income taxes	36,728,654	33,004,324
Depreciation and amortization	43,713,072	44,920,226
Interest and discount on long-term debts	2,962,763	3,121,147
	771,035,604	756,861,165
Earnings before income taxes	95,762,223	81,913,515
Provision for estimated income taxes thereon	41,236,558	31,293,101
Earnings after income taxes	$ 54,525,665	$ 50,620,414
Per share	$1.73	$1.61

CONSOLIDATED STATEMENT OF EARNINGS RETAINED AND USED IN THE BUSINESS

	1959	1958
Balance at January 1	$315,224,248	$302,339,804
Add: Earnings after income taxes: 1959, $1.73 per share; 1958, $1.61 per share	54,525,665	50,620,414
	369,749,913	352,960,218
Deduct: Dividends paid: $1.20 per share	37,751,949	37,735,970
Balance at December 31	$331,997,964	$315,224,248

The Notes to the Financial Statements on page 24 are an integral part of these statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of

IMPERIAL OIL LIMITED:

We have examined the Consolidated Balance Sheet of Imperial Oil Limited and its subsidiary companies as at December 31, 1959 and the Consolidated Statements of Earnings and Earnings Retained and Used in the Business for the year ended on that date and have obtained all the information and explanations we have required. Our examination was made in conformity with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying Consolidated Balance Sheet and related Consolidated Statements of Earnings and Earnings Retained and Used in the Business are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1959 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent in all material respects with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants

TORONTO, March 10, 1960.

CONTINGENCIES AND COMMITMENTS

To ensure the transportation of Canadian crude oil to its refineries and other markets, the company is a party to agreements under which it is obligated to protect certain principal and interest payments required to be made by various crude oil pipe line companies. The outstanding funded indebtedness of those companies at December 31, 1959 for which the company is contingently obligated amounts to $91,415,045, of which $42,156,195 is payable in Canadian funds and $49,258,850 in United States funds. The pipe line companies are meeting their obligations as they fall due and present indications are that they will continue to do so.

Guarantees of principal and interest on borrowings of others, chiefly for service stations and employee housing, amounted to $5,407,500 at December 31, 1959.

Tanker charter hire and other rentals payable by the companies under long-term agreements approximate $4,500,000 annually.

The companies have commitments in the ordinary course of business for the acquisition or construction of fixed assets and for the purchase of materials, supplies and services which are not significant in relation to the assets of the companies.

While the companies are involved in litigation incident to the nature of their business, it is impossible to ascertain what, if any, payments will have to be made in respect of such litigation. However, any amounts which the companies may be called upon to pay and any assets, the title to which may be in question, as a result of current litigation, will not be materially important in relation to the assets of the companies.

DEPRECIATION AND AMORTIZATION
DEFERRED INCOME TAXES
PROVISION FOR INCOME TAXES

The companies' policy in respect of depreciation and amortization of investment in plant and equipment is to make charges against income over the estimated service life of the assets by the application of either the unit-of-production or the straight-line method. Under income tax regulations the companies are claiming maximum allowable deductions which are greater than the provision recorded on the books of the companies, and as a result income taxes payable for 1959 are estimated at $36,319,650 whereas $41,236,558 was charged to income. The difference of $4,916,908 is applicable to future years when amounts deductible for tax purposes will be less than the depreciation recorded in the accounts and is accordingly included in the Consolidated Balance Sheet under the heading "Deferred income taxes".

The Supreme Court of Canada has not yet heard the appeal from the Exchequer Court's judgment of December 24, 1958 which ruled substantially in support of the company's interpretation of the Income Tax Act and Regulations governing its depletion allowance for 1951. Pending its outcome the company has not recognized in its accounts any possible tax recovery. The effect

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of a favorable decision on later years is undetermined, but the company has taken protective action by filing appeals or notices of objection to assessments.

The company believes that adequate provisions have been made for all income taxes payable.

CAPITAL STOCK

In 1959 the company issued 10,548 shares of its capital stock to employees for $368,074 under the provisions of the Incentive Stock Option Plan adopted in 1951. Since the inception of this plan, options for 295,720 shares have been granted to employees at market prices on the dates of option; of this total, options for 110,302 shares have been exercised and the shares issued, and the remainder for 185,418 shares are outstanding at December 31, 1959. Options under the plan expire not later than December 31, 1961.

A second stock option plan, the "Incentive Stock Option Plan (1959)", has been instituted subject to ratification at the next meeting of shareholders. Under the new plan options have been granted for 182,550 shares.

SALARIES OF EXECUTIVE OFFICERS AND COUNSEL FEES

The total amount deducted in the Consolidated Statement of Earnings in respect of salaries and other remuneration paid to counsel, solicitors and executive officers, including all salaried directors, was $855,498 for 1959.

TEN-YEAR SUMMARY

	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950
Financial:										
Gross income from all sources	$866,798,000	838,775,000	884,569,000	837,373,000	700,275,000	614,550,000	605,504,000	551,535,000	504,787,000	432,486,000
Expenses	$771,036,000	756,862,000	760,122,000	718,493,000	593,809,000	528,067,000	523,712,000	479,816,000	440,260,000	386,714,000
Income taxes on earnings	$ 41,237,000	31,293,000	52,366,000	49,781,000	44,321,000	36,900,000	33,807,000	30,523,000	28,576,000	15,311,000
Earnings after income taxes	$ 54,525,000	50,620,000	72,081,000	69,099,000	62,145,000	49,583,000	47,985,000	41,196,000	35,951,000	30,461,000
Per share	$ 1.73	1.61	2.29	2.20	2.08	1.66	1.60	1.38	1.20	1.12
Percentage of earnings to gross income	6.3	6.0	8.1	8.3	8.9	8.1	7.9	7.5	7.1	7.0
Dividends paid	$ 37,752,000	37,736,000	37,728,000	35,890,000	28,366,000	26,863,000	23,878,000	22,385,000	17,637,000	14,924,000
Per share	$ 1.20	1.20	1.20	1.20	.95	.90	.80	.75	.65	.55
Current funds and inventories	$319,802,000	318,416,000	322,675,000	365,674,000	299,309,000	225,460,000	234,119,000	252,068,000	272,875,000	207,296,000
Less: Current debts	$ 97,557,000	89,217,000	90,790,000	111,183,000	91,697,000	67,682,000	67,951,000	65,957,000	55,266,000	43,439,000
Net working funds	$222,245,000	229,199,000	231,885,000	254,491,000	207,612,000	157,778,000	166,168,000	186,111,000	217,609,000	163,857,000
Ratio of current funds and inventories to current debts	3.3	3.6	3.6	3.3	3.3	3.3	3.4	3.8	4.9	4.8
Property, plant and equipment less accumulated depreciation and amortization	$523,407,000	504,556,000	488,991,000	429,525,000	372,520,000	331,924,000	291,905,000	258,440,000	209,593,000	170,771,000
Capitalized expenditures for property, plant and equipment	$ 62,194,000	65,614,000	103,063,000	97,951,000	80,074,000	74,236,000	67,852,000	71,138,000	57,209,000	45,476,000
Long-term debt	$ 83,000,000	88,000,000	90,776,000	94,170,000	96,628,000	48,986,000	50,919,000	53,423,000	55,809,000	58,263,000
Shareholders' investment (book value)	$629,922,000	612,780,000	599,602,000	564,804,000	463,865,000	429,127,000	395,779,000	382,185,000	365,064,000	256,704,000
Per share	$ 20.02	19.48	19.07	17.97	15.53	14.37	13.26	12.80	12.23	9.46
Earnings as a percentage of shareholders' investment	8.7	8.3	12.0	12.2	13.4	11.6	12.1	10.8	9.8	11.9
Number of shares issued and outstanding	31,462,000	31,451,000	31,443,000	31,430,000	29,866,000	29,851,000	29,847,000	29,847,000	29,847,000	27,134,000
Number of shareholders	45,332	44,668	44,544	43,823	43,614	44,734	46,796	44,958	36,830	26,210
Operating: (Barrels per day)										
Sales of petroleum products	293,000	276,000	276,000	275,000	250,000	218,000	212,000	207,000	197,000	174,000
Crude oil processed at refineries	289,000	269,000	267,000	275,000	239,000	214,000	204,000	191,000	185,000	170,000
Canadian crude processed, as a percentage of total	60	61	60	64	67	69	57	50	44	28
Crude oil and product importations	138,000	121,000	126,000	121,000	108,000	88,000	121,000	127,000	129,000	147,000
Crude oil production — gross	94,000	86,000	110,000	119,000	108,000	97,000	90,000	76,000	62,000	35,000
— net	82,000	75,000	95,000	103,000	93,000	84,000	78,000	65,000	55,000	32,000
Net production excludes royalties and oil payments due others on company's share of production										
Number of employees at year-end	13,080	13,599	14,657	14,242	13,696	13,370	13,564	13,543	13,276	12,689


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